

**MUNICIPALITY OF SCOTLAND
SCOTLAND, SOUTH DAKOTA**

AUDIT REPORT

**FOR THE YEAR JANUARY 1, 2019 TO DECEMBER 31, 2019
AND
FOR THE YEAR JANUARY 1, 2020 TO DECEMBER 31, 2020**

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF SCOTLAND

MUNICIPAL OFFICIALS
DECEMBER 31, 2020

MAYOR:

Curtis Hofer

GOVERNING BOARD:

Randy Thum, President
Sean Barrett, Vice-President
Randy Abbink
Tim Asche
Dennis Bietz
Jerry Nelson

FINANCE OFFICER:

Tanya Bult

ATTORNEY:

Kent Lehr

Schoenfish & Co., Inc.

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Schoenfish & Co., Inc.

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105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57365

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Governing Board
Municipality of Scotland
Scotland, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Scotland, South Dakota (Municipality), as of December 31, 2020 and December 31, 2019, and for each of the two years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated June 30, 2021, which was adverse for the aggregate discretely presented component unit because it was not presented.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Municipality's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as item 2020-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Municipality's Response to Findings

The Municipality's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings. The Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Municipality's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Schoenfish & Co., Inc.
Certified Public Accountants
June 30, 2021

Schoenfish & Co., Inc.

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SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR AUDIT FINDINGS:

Internal Control Over Revenues:

Finding Number 2018-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This comment has not been corrected and is restated as current audit finding number 2020-001.

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SCHEDULE OF CURRENT AUDIT FINDINGSCURRENT OTHER AUDIT FINDINGS:Internal Control – Related Findings – Material Weaknesses:Finding Number 2020-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for the revenues. This is a continuing audit comment since 2000.

Criteria:

Proper segregation of duties results in increased reliability of reported financial data and decreased potential for the loss of public assets.

Condition:

The Finance Officer processes all revenue transactions from beginning to end. The Finance Officer also receives money, issues receipts, records receipts, posts receipts in the accounting records, prepares bank deposits, reconciles bank statements, and prepares financial statements.

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

Recommendation:

1. We recommend that the Municipality of Scotland officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever, and wherever, possible and practical.

Management's Response:

The Municipality of Scotland Mayor, Curtis Hofer, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Municipality of Scotland, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to develop policies and provide compensating controls.

CLOSING CONFERENCE

The audit findings and recommendations were discussed with the officials during the course of the audit and with the Mayor and Finance Officer on July 2, 2021.

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Municipality of Scotland
Scotland, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Scotland, South Dakota, (Municipality) as of December 31, 2020 and December 31, 2019, and for each of the two years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Municipality's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions

The financial statements do not include financial data for the Housing and Redevelopment Commission of the Municipality of Scotland. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the Municipality's primary government unless the Municipality also issues financial statements for the financial reporting entity that include the financial data for its component units. The Municipality has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net position, revenues, and expenses of the aggregate discretely presented components units would have been presented inclusive of the Housing and Redevelopment Commission of the Municipality of Scotland.

Adverse Opinion

In our opinion, because of the omission of financial data for the Housing and Redevelopment Commission of the Municipality of Scotland, as discussed in the Basis for Adverse Opinions, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of the Municipality of Scotland, South Dakota, as of December 31, 2020 and December 31, 2019, or the respective changes in financial position thereof for each of the two years in the biennial period then ended.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Scotland as of December 31, 2020 and December 31, 2019, and the respective changes in financial position thereof for each of the two years in the biennial period then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis of Accounting

We draw attention to Note 1.c. of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 2 of the financial statements, in 2019, the Municipality adopted Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality's financial statements. The Budgetary

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Comparison Schedules, the Schedule of the Municipality's Proportionate Share of Net Pension Liability (Asset), the Schedule of the Municipal Contributions, and the Long-Term Liabilities schedule listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2021 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.
 Certified Public Accountants
 June 30, 2021

Schoenfish & Co., Inc.

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MUNICIPALITY OF SCOTLAND
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2020

	Primary Government	
	Governmental Activities	Business-Type Activities
		Total
ASSETS:		
Cash and Cash Equivalents	2,131,395.65	3,079,994.99
Investments	194,932.07	294,932.07
TOTAL ASSETS	2,326,327.72	3,374,927.06
NET POSITION:		
Restricted for:		
Debt Service Purposes	450,304.56	450,304.56
Permanently Restricted Purposes		
Expendable	33,375.52	33,375.52
Non-Expendable	50,000.00	50,000.00
Unrestricted (Deficit)	2,242,952.20	2,841,246.98
TOTAL NET POSITION	2,326,327.72	3,374,927.06

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF SCOTLAND
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2020

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-Type Activities
Primary Government:						
Governmental Activities:						
General Government	133,502.12	5,264.00	60,642.28	535.00	(67,060.84)	(67,060.84)
Public Safety	102,123.70	35.76		20,285.90	(81,802.04)	(81,802.04)
Public Works	667,469.05	3,500.00	32,094.14		(631,874.91)	(631,874.91)
Health and Welfare	336,921.61	110,280.90	1,203.00		(225,437.71)	(225,437.71)
Culture and Recreation	73,443.08	15,628.25	2,605.16		(55,209.67)	(55,209.67)
Conservation and Development	7,802.60				(7,802.60)	(7,802.60)
*Debt Service	11,166.12				(11,166.12)	(11,166.12)
Total Governmental Activities	1,332,428.28	134,708.91	96,544.58	20,820.90	(1,080,353.89)	(1,080,353.89)
Business-type Activities:						
Water	264,472.07	337,888.00				73,415.93
Sewer	156,382.55	166,056.61				9,674.06
Garbage	68,763.59	75,706.28				6,942.69
Total Business-Type Activities	489,618.21	579,650.89	0.00	0.00		90,032.68
Total Primary Government	1,822,046.49	714,359.80	96,544.58	20,820.90	(1,080,353.89)	(990,321.21)
General Revenues:						
Taxes:						
Property Taxes					378,192.23	378,192.23
Sales Taxes					344,927.70	344,927.70
State Shared Revenues					9,969.54	9,969.54
Unrestricted Investment Earnings					5,881.70	5,881.70
Miscellaneous Revenue					17,164.03	17,164.03
Total General Revenues					756,135.20	756,135.20
Change in Net Position					(324,218.69)	(234,186.01)
Net Position - Beginning					2,650,546.41	3,609,113.07
NET POSITION - ENDING					2,326,327.72	3,374,927.06

* The Municipality does not have interest expense related to the functions presented above. This amount includes indirect interest expense and principal payments on general long-term debt.

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF SCOTLAND
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2020**

	<u>General Fund</u>	<u>Second Penny Fund</u>	<u>Cemetery Perpetual Care Fund</u>	<u>Total</u>
ASSETS:				
Cash and Cash Equivalents	1,700,388.48	391,631.65	39,375.52	2,131,395.65
Investments	<u>150,932.07</u>		<u>44,000.00</u>	<u>194,932.07</u>
TOTAL ASSETS	<u>1,851,320.55</u>	<u>391,631.65</u>	<u>83,375.52</u>	<u>2,326,327.72</u>
FUND BALANCES:				
Nonspendable			50,000.00	50,000.00
Restricted			<u>33,375.52</u>	<u>33,375.52</u>
Committed for Capital Projects	<u>87,000.00</u>			<u>87,000.00</u>
Committed for Debt Service		391,631.65		391,631.65
Assigned for Ambulance	<u>114,676.90</u>			<u>114,676.90</u>
Unassigned	<u>1,649,643.65</u>			<u>1,649,643.65</u>
TOTAL FUND BALANCES	<u>1,851,320.55</u>	<u>391,631.65</u>	<u>83,375.52</u>	<u>2,326,327.72</u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF SCOTLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2020

	General Fund	Second Penny Fund	Cemetery Perpetual Care Fund	Total
Revenues:				
Taxes:				
General Property Taxes	375,757.15			375,757.15
General Sales and Use Taxes	172,463.87	172,463.83		344,927.70
Tax Deed Revenue	1,208.18			1,208.18
Penalties & Interest on Delinquent Taxes	1,226.90			1,226.90
Total Taxes	550,656.10	172,463.83	0.00	723,119.93
Licenses and Permits	4,904.00	0.00	0.00	4,904.00
Intergovernmental Revenue:				
Federal Grants	129,084.54			129,084.54
State Grants	1,203.00			1,203.00
State Shared Revenue:				
Bank Franchise Tax	4,148.36			4,148.36
Prorate License Fees	3,171.83			3,171.83
Liquor Tax Reversion	5,821.18			5,821.18
Motor Vehicle Licenses	10,105.74			10,105.74
Local Government Highway and Bridge Fund	16,542.81			16,542.81
County Shared Revenue:				
County Road and Bridge Tax	2,273.76			2,273.76
Total Intergovernmental Revenue	172,351.22	0.00	0.00	172,351.22
Charges for Goods and Services:				
Highways and Streets	1,800.00			1,800.00
Culture and Recreation	15,628.25			15,628.25
Ambulance	64,729.70			64,729.70
Cemetery	800.00		900.00	1,700.00
Total Charges for Goods and Services	82,957.95	0.00	900.00	83,857.95
Fines and Forfeits:				
Court Fines and Costs	35.76			35.76
Other	200.00			200.00
Total Fines and Forfeits	235.76	0.00	0.00	235.76
Miscellaneous Revenue:				
Investment Earnings	5,803.33		78.37	5,881.70
Rentals	360.00			360.00
Contributions and Donations from Private Sources	4,756.81			4,756.81
Other	3,662.38			3,662.38
Total Miscellaneous Revenue	14,582.52	0.00	78.37	14,660.89
Total Revenue	825,687.55	172,463.83	978.37	999,129.75

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF SCOTLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2020

	General Fund	Second Penny Fund	Cemetery Perpetual Care Fund	Total
Expenditures:				
General Government:				
Legislative	37,146.26			37,146.26
Elections	565.39			565.39
Financial Administration	66,480.14			66,480.14
Other	29,310.33			29,310.33
Total General Government	133,502.12	0.00	0.00	133,502.12
Public Safety:				
Police	67,337.80			67,337.80
Fire	34,785.90			34,785.90
Total Public Safety	102,123.70	0.00	0.00	102,123.70
Public Works:				
Highways and Streets	128,915.75	524,842.40		653,758.15
Sanitation	4,189.10			4,189.10
Cemeteries	9,521.80			9,521.80
Total Public Works	142,626.65	524,842.40	0.00	667,469.05
Health and Welfare:				
Health	5,639.54			5,639.54
Ambulance	331,282.07			331,282.07
Total Health and Welfare	336,921.61	0.00	0.00	336,921.61
Culture and Recreation:				
Recreation	32,980.16			32,980.16
Parks	17,670.87			17,670.87
Libraries	22,792.05			22,792.05
Total Culture and Recreation	73,443.08	0.00	0.00	73,443.08
Conservation and Development:				
Economic Development and Assistance	7,802.60			7,802.60
Total Conservation and Development	7,802.60	0.00	0.00	7,802.60
Debt Service	0.00	11,166.12	0.00	11,166.12
Total Expenditures	796,419.76	536,008.52	0.00	1,332,428.28
Excess Revenues Over (Under) Expenditures	29,267.79	(363,544.69)	978.37	(333,298.53)

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF SCOTLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2020

	General Fund	Second Penny Fund	Cemetery Perpetual Care Fund	Total
Other Financing Sources (Uses):				
Sale of Municipal Property	8,544.84			8,544.84
Compensation for Loss or Damage to Capital Assets	535.00			535.00
Total Other Financing Sources (Uses)	9,079.84	0.00	0.00	9,079.84
Net Change in Fund Balance	38,347.63	(363,544.69)	978.37	(324,218.69)
Fund Balance - Beginning	1,812,972.92	755,176.34	82,397.15	2,650,546.41
FUND BALANCE - ENDING	1,851,320.55	391,631.65	83,375.52	2,326,327.72

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF SCOTLAND
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2020

	Enterprise Funds			
	Water Fund	Sewer Fund	Garbage Fund	Totals
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	395,190.69	494,914.01	58,494.64	948,599.34
Investments	100,000.00			100,000.00
Total Current Assets	495,190.69	494,914.01	58,494.64	1,048,599.34
TOTAL ASSETS	495,190.69	494,914.01	58,494.64	1,048,599.34
NET POSITION:				
Restricted for:				
Revenue Bond Debt Service	40,739.07	409,565.49		450,304.56
Unrestricted	454,451.62	85,348.52	58,494.64	598,294.78
TOTAL NET POSITION	495,190.69	494,914.01	58,494.64	1,048,599.34

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF SCOTLAND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2020

	Enterprise Funds			
	Water Fund	Sewer Fund	Garbage Fund	Totals
Operating Revenue:				
Charges for Goods and Services	313,249.08	115,776.09	75,706.28	504,731.45
Revenue Designated for Servicing Debt	24,638.92	50,280.52		74,919.44
Total Operating Revenue	337,888.00	166,056.61	75,706.28	579,650.89
Operating Expenses:				
Personal Services	26,207.89	25,957.10		52,164.99
Other Current Expense	19,246.38	88,331.05	68,763.59	176,341.02
Materials	219,017.80			219,017.80
Total Operating Expenses	264,472.07	114,288.15	68,763.59	447,523.81
Operating Income (Loss)	73,415.93	51,768.46	6,942.69	132,127.08
Nonoperating Revenue (Expense):				
Debt Service (Principal)		(20,075.93)		(20,075.93)
Debt Service (Interest)		(22,018.47)		(22,018.47)
Total Nonoperating Revenue (Expense)	0.00	(42,094.40)	0.00	(42,094.40)
Change in Net Position	73,415.93	9,674.06	6,942.69	90,032.68
Net Position - Beginning	421,774.76	485,239.95	51,551.95	958,566.66
NET POSITION - ENDING	495,190.69	494,914.01	58,494.64	1,048,599.34

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF SCOTLAND
STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
December 31, 2020

	Custodial Funds
ASSETS:	
Cash and Cash Equivalents	<u>169.46</u>
TOTAL ASSETS	<u>169.46</u>
NET POSITION:	
Restricted for:	
Individuals	<u>169.46</u>
TOTAL NET POSITION	<u><u>169.46</u></u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF SCOTLAND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
For the Year Ended December 31, 2020

	Custodial Funds
ADDITIONS:	
Other Additions	612.78
Total Additions	612.78
DEDUCTIONS:	
Other Deductions	2,675.00
Total Deductions	2,675.00
Change in Net Position	(2,062.22)
Net Position - Beginning	2,231.68
NET POSITION - ENDING	169.46

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF SCOTLAND
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2019

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Cash and Cash Equivalents	2,332,965.96	858,566.66	3,191,532.62
Investments	317,580.45	100,000.00	417,580.45
TOTAL ASSETS	2,650,546.41	958,566.66	3,609,113.07
NET POSITION:			
Restricted for:			
Debt Service Purposes		377,247.13	377,247.13
Permanently Restricted Purposes			
Expendable	32,397.15		32,397.15
Non-Expendable	50,000.00		50,000.00
Unrestricted (Deficit)	2,568,149.26	581,319.53	3,149,468.79
TOTAL NET POSITION	2,650,546.41	958,566.66	3,609,113.07

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF SCOTLAND
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2019

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	118,496.88	5,890.00			(112,606.88)		(112,606.88)
Public Safety	105,636.29				(105,636.29)		(105,636.29)
Public Works	330,671.92	6,215.65	31,006.30		(293,449.97)		(293,449.97)
Health and Welfare	51,703.02	65,280.39	1,303.00		14,880.37		14,880.37
Culture and Recreation	79,673.10	15,955.90	303.75		(63,413.45)		(63,413.45)
Conservation and Development	4,075.00				(4,075.00)		(4,075.00)
*Debt Service	11,166.12				(11,166.12)		(11,166.12)
Total Governmental Activities	701,422.33	93,341.94	32,613.05	0.00	(575,467.34)		(575,467.34)
Business-Type Activities:							
Water	276,666.54	321,401.25				44,734.71	44,734.71
Sewer	139,778.67	183,401.99				43,623.32	43,623.32
Garbage	64,218.93	71,273.81				7,054.88	7,054.88
Total Business-Type Activities	480,664.14	576,077.05	0.00	0.00		95,412.91	95,412.91
Total Primary Government	1,182,086.47	669,418.99	32,613.05	0.00	(575,467.34)	95,412.91	(480,054.43)
General Revenues:							
Taxes:							
* The Municipality does not have interest expense related to the functions presented above. This amount includes indirect interest expense and principal payments on general long-term debt.	Property Taxes						
	Sales Taxes						
	State Shared Revenues						
	Unrestricted Investment Earnings						
	Miscellaneous Revenue						
Total General Revenues							
Change in Net Position							
Net Position - Beginning							
NET POSITION - ENDING							

* The Municipality does not have interest expense related to the functions presented above. This amount includes indirect interest expense and principal payments on general long-term debt.

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF SCOTLAND
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2019**

	<u>General Fund</u>	<u>Second Penny Fund</u>	<u>Cemetery Perpetual Care Fund</u>	<u>Total</u>
ASSETS:				
Cash and Cash Equivalents	1,539,392.47	755,176.34	38,397.15	2,332,965.96
Investments	273,580.45		44,000.00	317,580.45
TOTAL ASSETS	<u>1,812,972.92</u>	<u>755,176.34</u>	<u>82,397.15</u>	<u>2,650,546.41</u>
FUND BALANCES:				
Nonspendable			50,000.00	50,000.00
Restricted			32,397.15	32,397.15
Committed for Capital Improvements	31,000.00			31,000.00
Committed for Debt Service		755,176.34		755,176.34
Assigned for Ambulance	328,951.24			328,951.24
Unassigned	1,453,021.68			1,453,021.68
TOTAL FUND BALANCES	<u>1,812,972.92</u>	<u>755,176.34</u>	<u>82,397.15</u>	<u>2,650,546.41</u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF SCOTLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2019

	General Fund	Second Penny Fund	Cemetery Perpetual Care Fund	Total
Revenues:				
Taxes:				
General Property Taxes	367,413.46			367,413.46
General Sales and Use Taxes	169,197.13	169,197.07		338,394.20
Amusement Taxes	72.00			72.00
Tax Deed Revenue	344.18			344.18
Penalties & Interest on Delinquent Taxes	1,671.12			1,671.12
Total Taxes	538,697.89	169,197.07	0.00	707,894.96
Licenses and Permits	5,625.00	0.00	0.00	5,625.00
Intergovernmental Revenue:				
State Grants	1,263.00			1,263.00
State Shared Revenue:				
Bank Franchise Tax	2,870.42			2,870.42
Prorate License Fees	2,169.61			2,169.61
Liquor Tax Reversion	5,480.88			5,480.88
Motor Vehicle Licenses	10,193.66			10,193.66
Local Government Highway and Bridge Fund	16,369.27			16,369.27
County Shared Revenue:				
County Road Tax	2,273.76			2,273.76
Total Intergovernmental Revenue	40,620.60	0.00	0.00	40,620.60
Charges for Goods and Services:				
Highways and Streets	1,800.00			1,800.00
Culture and Recreation	15,955.90			15,955.90
Ambulance	65,280.39			65,280.39
Cemetery	1,600.00		2,815.65	4,415.65
Total Charges for Goods and Services	84,636.29	0.00	2,815.65	87,451.94
Fines and Forfeits:				
Other	160.00	0.00	0.00	160.00
Miscellaneous Revenue:				
Investment Earnings	11,138.90		44.75	11,183.65
Rentals	265.00			265.00
Contributions and Donations from Private Sources	500.35			500.35
Other	6,530.71			6,530.71
Total Miscellaneous Revenue	18,434.96	0.00	44.75	18,479.71
Total Revenue	688,174.74	169,197.07	2,860.40	860,232.21

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF SCOTLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2019

	General Fund	Second Penny Fund	Cemetery Perpetual Care Fund	Total
Expenditures:				
General Government:				
Legislative	24,154.37			24,154.37
Financial Administration	67,605.67			67,605.67
Other	26,736.84			26,736.84
Total General Government	118,496.88	0.00	0.00	118,496.88
Public Safety:				
Police	92,420.79			92,420.79
Fire	13,215.50			13,215.50
Total Public Safety	105,636.29	0.00	0.00	105,636.29
Public Works:				
Highways and Streets	277,058.52	33,594.80		310,653.32
Sanitation	4,067.86			4,067.86
Cemeteries	15,950.74			15,950.74
Total Public Works	297,077.12	33,594.80	0.00	330,671.92
Health and Welfare:				
Health	6,752.80			6,752.80
Ambulance	44,950.22			44,950.22
Total Health and Welfare	51,703.02	0.00	0.00	51,703.02
Culture and Recreation:				
Recreation	27,770.94			27,770.94
Parks	25,623.20			25,623.20
Libraries	26,278.96			26,278.96
Total Culture and Recreation	79,673.10	0.00	0.00	79,673.10
Conservation and Development:				
Economic Development and Assistance	4,075.00			4,075.00
Total Conservation and Development	4,075.00	0.00	0.00	4,075.00
Debt Service	0.00	11,166.12	0.00	11,166.12
Total Expenditures	656,661.41	44,760.92	0.00	701,422.33
Net Change in Fund Balance	31,513.33	124,436.15	2,860.40	158,809.88
Fund Balance - Beginning	1,781,459.59	630,740.19	79,536.75	2,491,736.53
FUND BALANCE - ENDING	1,812,972.92	755,176.34	82,397.15	2,650,546.41

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF SCOTLAND
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2019

	Enterprise Funds			
	Water Fund	Sewer Fund	Garbage Fund	Totals
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	321,774.76	485,239.95	51,551.95	858,566.66
Investments	100,000.00			100,000.00
Total Current Assets	421,774.76	485,239.95	51,551.95	958,566.66
TOTAL ASSETS	421,774.76	485,239.95	51,551.95	958,566.66
NET POSITION:				
Restricted for:				
Revenue Bond Debt Service	16,560.15	360,686.98		377,247.13
Unrestricted	405,214.61	124,552.97	51,551.95	581,319.53
TOTAL NET POSITION	421,774.76	485,239.95	51,551.95	958,566.66

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF SCOTLAND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2019

	Enterprise Funds			
	Water Fund	Sewer Fund	Garbage Fund	Totals
Operating Revenue:				
Charges for Goods and Services	304,841.10	132,382.73	71,273.81	508,497.64
Revenue Designated for Servicing Debt	16,560.15	51,019.26		67,579.41
Total Operating Revenue	321,401.25	183,401.99	71,273.81	576,077.05
Operating Expenses:				
Personal Services	29,906.44	21,930.98		51,837.42
Other Current Expense	40,849.10	75,753.29	64,218.93	180,821.32
Materials	205,911.00			205,911.00
Total Operating Expenses	276,666.54	97,684.27	64,218.93	438,569.74
Operating Income (Loss)	44,734.71	85,717.72	7,054.88	137,507.31
Nonoperating Revenue (Expense):				
Debt Service (Principal)		(19,436.50)		(19,436.50)
Debt Service (Interest)		(22,657.90)		(22,657.90)
Total Nonoperating Revenue (Expense)	0.00	(42,094.40)	0.00	(42,094.40)
Change in Net Position	44,734.71	43,623.32	7,054.88	95,412.91
Net Position - Beginning	377,040.05	441,616.63	44,497.07	863,153.75
NET POSITION - ENDING	421,774.76	485,239.95	51,551.95	958,566.66

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF SCOTLAND
STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
December 31, 2019

	Custodial Funds
ASSETS:	
Cash and Cash Equivalents	<u>2,231.68</u>
TOTAL ASSETS	<u>2,231.68</u>
 NET POSITION:	
Restricted for:	
Individuals	<u>2,231.68</u>
TOTAL NET POSITION	<u><u>2,231.68</u></u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF SCOTLAND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - MODIFIED CASH
FIDUCIARY FUNDS
For the Year Ended December 31, 2019

	Custodial Funds
ADDITIONS:	
Contributions and Donations	2,674.68
Interest and Dividends	23.46
Total Additions	2,698.14
DEDUCTIONS:	
Other Deductions	2,500.00
Total Deductions	2,500.00
Change in Net Position	198.14
Net Position - Beginning	0.00
Restatement:	
Implementation of GASB No. 84 (See Note 11)	2,033.54
Net Position - Beginning, as Restated	2,033.54
NET POSITION - ENDING	2,231.68

The notes to the financial statements are an integral part of this statement.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.c, these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

a. Financial Reporting Entity:

The reporting entity of the Municipality of Scotland (Municipality) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Municipality is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality (primary government). The Municipality may also be financially accountable for another organization if that organization is fiscally dependent on the Municipality.

The Housing and Redevelopment Commission of the Municipality of Scotland, South Dakota (Commission) is a proprietary fund-type, discretely-presented component unit. The five members of the Commission are appointed by the Mayor, with the approval of the Governing Board, for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct low-income housing units, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Municipality and for each function of the Municipality's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Municipality or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the Municipality financial reporting entity are described below:

Governmental Funds:

General Fund – the General Fund is the general operating fund of the Municipality. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always a major fund.

Special Revenue Funds – special revenue funds are used to account for the proceeds of special revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Second Penny Sales Tax Fund – to account for an additional one percent sales tax which may be used only for capital improvement, land acquisition, and debt retirement, per municipal ordinance. This is a major fund.

Permanent Funds – permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the Municipality's programs—that is for the benefit of the Municipality and its citizenry.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

Cemetery Perpetual Care Fund – to account for the payments received for perpetual care of cemeteries which is permanently set aside and for which only the income from the trust fund investments is used for the care and maintenance of the cemetery. (SDCL 9-32-18) This is a major fund.

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fee and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable “solely” from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Water Fund – financed primarily by user charges, this fund accounts for the construction and operation of the municipal waterworks system and related facilities. (SDCL 9-47-1) This is a major fund.

Sewer Fund – financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities. (SDCL 9-48-2) This is a major fund.

Garbage Fund – financed primarily by user charges, this fund accounts for the construction and operation of the municipal garbage system. (SDCL 9-32-11 and 34A-6) This is a major fund.

Fiduciary Funds:

Fiduciary funds consist of the following sub-category and are never considered to be major funds:

Custodial Funds – Custodial funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. The Municipality maintains a custodial fund for the employee cafeteria plan.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

The Municipality's basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used, applied with the limitations of the modified cash basis of accounting.

Basis of Accounting:

In the Government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. The acceptable modification to the cash basis of accounting implemented by the Municipality in these financial statements is:

- a. Recording long-term investments in marketable securities (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the Municipality applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

d. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Laws (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

e. Long-Term Liabilities:

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances is recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate. Interest costs are not allocated, but are reported as a separate program cost category. Under the modified cash basis of accounting, all long-term debts arising from cash transactions to be repaid from governmental and business-type resources are not reported as liabilities in the respective columns on the government-wide financial statements.

Long-term debts arising from cash transactions of governmental funds are not reported as liabilities in the fund financial statements. Instead, the debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting for long-term debts of proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

f. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the Municipality's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

g. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Fund Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues and expenses.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

h. Equity Classifications:

Government-wide Statements:

Equity is classified as net position and is displayed in two components.

1. **Restricted net position** – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. **Unrestricted net position** – All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between Nonspendable, Restricted, Committed, Assigned, or Unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity is reported as restricted net position.

i. Application of Net Position:

It is the Municipality's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

j. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Municipality classifies governmental fund balance as follows:

- **Nonspendable** – includes fund balance amounts that cannot be spent either because it is not in a spendable form or because of legal or contractual constraints.
- **Restricted** – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- **Committed** – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- **Assigned** – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Finance Officer.
- **Unassigned** – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

The Nonspendable Fund Balance is comprised of the following:

- Amount legally or contractually required to be maintained intact such as Cemetery Perpetual Care.

The Municipal Governing Board Committed the following fund balance by taking the following action:

Fund Balance	2019 Amount	2020 Amount	Action
Second Penny Fund	\$ 755,176.34	\$ 391,631.65	Ordinance
General Fund - Capital Improvements	31,000.00	87,000.00	Ordinance

The Municipality uses *restricted/committed* amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use *committed*, then *assigned*, and lastly *unassigned* amounts of unrestricted fund balance when expenditures are made.

The Municipality does not have a formal minimum fund balance policy.

The purpose of each major special revenue fund and revenue sources is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Second Penny Fund	Sales Tax

2. IMPLEMENTATION OF NEW ACCOUNTING STANDARD

In 2019, the Municipality implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities accounting standard. This statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The implementation of this standard required that the Municipality present a Statement of Changes in Fiduciary Net Position for Custodial Funds for 2019.

3. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATION OF CREDIT RISK AND INTEREST RATE RISK

The Municipality follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The Municipality's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits Municipality funds to be invested only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2019 and December 31, 2020, the Municipality did not have any investments. The investments reported in the financial statements consist of only certificates of deposit.

Credit Risk – State law limits eligible investments for the Municipality, as discussed above. The Municipality has no investment policy that would further limit its investment choices.

Custodial Credit Risk – Deposits – the risk that, in the event of a depository failure, the Municipality's deposits may not be returned to it. The Municipality does not have a deposit policy for custodial credit risk.

Concentration of Credit Risk – The Municipality places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk – The Municipality does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Municipality's policy is to credit all income from investments to the fund making the investment, except for interest generated by the Cemetery Perpetual Care Fund, which must be credited to the General Fund, and used only for maintenance of the municipal cemetery, as required by SDCL 9-32-18.

4. PROPERTY TAXES

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property and become due and payable as of January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

The Municipality is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable property in the Municipality.

5. OPERATING LEASES

The Municipality entered into an operating lease for a postage meter. The minimum monthly required payment is \$55.78 and is paid one-third each from the Water, Sewer, and Garbage Funds.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

The following are the minimum payments on the existing operating lease:

<u>Year</u>	<u>1/3 Water, Sewer, and Garbage Funds</u>
2021	669.36
2022	669.36
2023	223.12

6. LONG-TERM COMMITMENT

On September 3, 1985, the Municipality of Scotland entered into a 40-year commitment with B-Y Water District to provide water to the Municipality. A monthly charge in the amount of \$117.00 is paid by the Municipality to B-Y Water District. The monthly charge represents a contribution by the Municipality to aid B-Y Water District in the construction of the facilities necessary to provide the Municipality with water. The Municipality will not acquire ownership of any of these water facilities through these payments. Payments are made from the Municipality's Water Fund.

The following are the minimum payments on this commitment:

	<u>Water Fund</u>
2021	\$ 1,404.00
2022	\$ 1,404.00
2023	\$ 1,404.00
2024	\$ 1,404.00
2025	\$ 468.00

7. RESTRICTED NET POSITION

Restricted net position for the years ended December 31, 2019 and 2020 were as follows:

	<u>12/31/2019</u>	<u>12/31/2020</u>
Permanently Restricted:		
Cemetery Perpetual Care	\$ 82,397.15	\$ 83,375.52
Sewer Fund:		
Debt Service	<u>377,247.13</u>	<u>450,304.56</u>
Total Restricted Net Position	<u>\$ 459,644.28</u>	<u>\$ 533,680.08</u>

These balances are restricted due to statutory requirements and bond covenants.

8. PENSION PLAN

Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer hybrid defined benefit pension plan

See Independent Auditor's Report.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

SDRS has three different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

Legislation enacted in 2017 established the current COLA process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2020, 2019, and 2018, were \$9,992.14, \$11,213.69, and \$8,124.05, respectively, equal to the required contributions each year.

Pension Liabilities (Assets):

At June 30, 2020, SDRS is 100.04% funded and accordingly has net pension asset. The proportionate shares of the components of the net pension asset of the South Dakota Retirement System, for the Municipality as of the measurement period ending June 30, 2020 and reported by the Municipality as of December 31, 2020 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 1,118,933.01
Less proportionate share of total pension liability	<u>\$ 1,119,328.32</u>
Proportionate share of net pension liability (asset)	<u>\$ (395.31)</u>

The net pension liability (asset) was measured as of June 30, 2020 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2020, the Municipality's proportion was 0.00910220%, which is an increase of 0.0013726% from its proportion measured as of June 30, 2019.

At June 30, 2019, SDRS is 100.09% funded and accordingly has net pension asset. The proportionate shares of the components of the net pension asset of the South Dakota Retirement System, for the Municipality as of the measurement period ending June 30, 2019 and reported by the Municipality as of December 31, 2019 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 963,278.40
Less proportionate share of total pension liability	<u>\$ 964,097.53</u>
Proportionate share of net pension liability (asset)	<u>\$ (819.13)</u>

The net pension liability (asset) was measured as of June 30, 2019 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2019, the Municipality's proportion was 0.00772960%, which is an increase of 0.0009376% from its proportion measured as of June 30, 2018.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense
Future COLAs	1.41%

The total pension liability (asset) in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense
Future COLAs	1.88%

Mortality rates were based on 97% of the RP-2014 Mortality Table, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates for each major asset class included in the pension plan's target asset allocation as of June 30, 2020 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	5.1%
Fixed Income	30.0%	1.5%
Real Estate	10.0%	6.2%
Cash	2.0%	1.0%
Total	100%	

See Independent Auditor's Report.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

Best estimates of real rates for each major asset class included in the pension plan's target asset allocation as of June 30, 2019 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.7%
Fixed Income	30.0%	1.7%
Real Estate	10.0%	4.3%
Cash	2.0%	0.9%
Total	100%	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of liability (asset) to changes in the discount rate:

For the year ended December 31, 2020, the following presents the Municipality's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50 percent, as well as what the Municipality's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Municipality's proportionate share of the net pension liability (asset)	\$ 153,352.82	\$(395.31)	\$(126,158.25)

For the year ended December 31, 2019, the following presents the Municipality's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50 percent, as well as what the Municipality's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Municipality's proportionate share of the net pension liability (asset)	\$ 135,958.87	\$(819.13)	\$(112,268.48)

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

Pension Plan Fiduciary Net Position:

Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

9. SIGNIFICANT CONTINGENCIES - LITIGATION

At December 31, 2020 and December 31, 2019, the Municipality was not involved in any significant litigation.

10. RISK MANAGEMENT

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2020, the Municipality managed its risks as follows:

Employee Health Insurance:

The Municipality purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The Municipality purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The Municipality joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Municipality pays an annual premium to the pool to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

The Municipality does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits:

The Municipality provided coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

11. IMPLEMENTATION OF NEW STANDARD AND RESTATEMENT

The Municipality implemented GASB Statement No. 84, *Fiduciary Activities*. As a result, beginning net position has been restated to reflect the reclassification of Agency Funds to Custodial Funds as of January 1, 2019, as follows:

	<u>Custodial Funds</u>
Net Position January 1, 2019, as previously reported	0.00
Restatement:	
Implementation of GASB 84	2,033.54
Net Position January 1, 2019, as Restated	<u>\$ 2,033.54</u>

12. SUBSEQUENT EVENTS

Management has evaluated whether any subsequent events have occurred through June 30, 2021, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SCOTLAND
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
For the Year Ended December 31, 2020

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget -
				Positive (Negative)
Revenues:				
Taxes:				
General Property Taxes	386,996.00	386,996.00	375,757.15	(11,238.85)
General Sales and Use Taxes	150,000.00	150,000.00	172,463.87	22,463.87
Tax Deed Revenue	0.00	0.00	1,208.18	1,208.18
Penalties & Interest on Delinquent Taxes	0.00	0.00	1,226.90	1,226.90
Total Taxes	536,996.00	536,996.00	550,656.10	13,660.10
Licenses and Permits	3,965.00	3,965.00	4,904.00	939.00
Intergovernmental Revenue:				
Federal Grants	0.00	83,533.34	129,084.54	45,551.20
State Grants	0.00	1,203.00	1,203.00	0.00
State Shared Revenue:				
Bank Franchise Tax	2,000.00	2,000.00	4,148.36	2,148.36
Prorate License Fees	2,000.00	2,000.00	3,171.83	1,171.83
Liquor Tax Reversion	5,000.00	5,000.00	5,821.18	821.18
Motor Vehicle Licenses	10,000.00	10,000.00	10,105.74	105.74
Local Government Highway and Bridge Fund	15,000.00	15,000.00	16,542.81	1,542.81
County Shared Revenue:				
County Road and Bridge Tax	2,270.00	2,270.00	2,273.76	3.76
Total Intergovernmental Revenue	36,270.00	121,006.34	172,351.22	51,344.88
Charges for Goods and Services:				
Highways and Streets	0.00	0.00	1,800.00	1,800.00
Culture and Recreation	5,000.00	5,000.00	15,628.25	10,628.25
Ambulance	26,000.00	26,000.00	64,729.70	38,729.70
Cemetery	200.00	200.00	800.00	600.00
Total Charges for Goods & Services	31,200.00	31,200.00	82,957.95	51,757.95
Fines and Forfeits:				
Court Fines and Costs	100.00	100.00	35.76	(64.24)
Other	0.00	0.00	200.00	200.00
Total Fines and Forfeits	100.00	100.00	235.76	135.76
Miscellaneous Revenue:				
Investment Earnings	2,500.00	2,500.00	5,803.33	3,303.33
Rentals	150.00	150.00	360.00	210.00
Contributions and Donations from Private Sources	0.00	0.00	4,756.81	4,756.81
Other	4,500.00	4,500.00	3,662.38	(837.62)
Total Miscellaneous Revenue	7,150.00	7,150.00	14,582.52	7,432.52
Total Revenue	615,681.00	700,417.34	825,687.55	125,270.21
Expenditures:				
General Government:				
Legislative	25,375.00	37,146.26	37,146.26	0.00
Contingency	13,506.00	13,506.00		
Amount Transferred		(4,180.56)		9,325.44
Elections	710.00	710.00	565.39	144.61
Financial Administration	65,150.00	66,638.86	66,480.14	158.72
Other	30,000.00	30,000.00	29,310.33	689.67
Total General Government	134,741.00	143,820.56	133,502.12	10,318.44

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SCOTLAND
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
For the Year Ended December 31, 2020

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Positive (Negative)
Expenditures (Continued):				
Public Safety:				
Police	90,500.00	90,500.00	67,337.80	23,162.20
Fire	34,500.00	54,785.90	34,785.90	20,000.00
Total Public Safety	125,000.00	145,285.90	102,123.70	43,162.20
Public Works:				
Highways and Streets	207,250.00	207,250.00	128,915.75	78,334.25
Sanitation	5,175.00	5,175.00	4,189.10	985.90
Cemeteries	10,900.00	10,900.00	9,521.80	1,378.20
Total Public Works	223,325.00	223,325.00	142,626.65	80,698.35
Health and Welfare:				
Health	4,350.00	5,639.54	5,639.54	0.00
Ambulance	32,500.00	331,282.07	331,282.07	0.00
Total Health and Welfare	36,850.00	336,921.61	336,921.61	0.00
Culture and Recreation:				
Recreation	30,375.00	32,980.16	32,980.16	0.00
Parks	32,400.00	32,400.00	17,670.87	14,729.13
Libraries	24,865.00	24,865.00	22,792.05	2,072.95
Total Culture and Recreation	87,640.00	90,245.16	73,443.08	16,802.08
Conservation and Development:				
Economic Development & Assistance	9,875.00	9,875.00	7,802.60	2,072.40
Total Conservation and Development	9,875.00	9,875.00	7,802.60	2,072.40
Total Expenditures	617,431.00	949,473.23	796,419.76	153,053.47
Excess of Revenue Over (Under)				
Expenditures	(1,750.00)	(249,055.89)	29,267.79	278,323.68
Other Financing Sources (Uses):				
Sale of Municipal Property	250.00	250.00	8,544.84	8,294.84
Compensation for Loss or				
Damage to Capital Assets	0.00	0.00	535.00	535.00
Total Other Financing Sources (Uses)	250.00	250.00	9,079.84	8,829.84
Net Change in Fund Balances	(1,500.00)	(248,805.89)	38,347.63	287,153.52
Fund Balance - Beginning	1,812,972.92	1,812,972.92	1,812,972.92	0.00
FUND BALANCE - ENDING	1,811,472.92	1,564,167.03	1,851,320.55	287,153.52

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SCOTLAND
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
SECOND PENNY SALES TAX FUND
For the Year Ended December 31, 2020

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Positive (Negative)
Revenues:				
Taxes:				
General Sales and Use Taxes	150,000.00	150,000.00	172,463.83	22,463.83
Total Taxes	150,000.00	150,000.00	172,463.83	22,463.83
Total Revenue	150,000.00	150,000.00	172,463.83	22,463.83
Expenditures:				
Public Works:				
Highway and Streets	343,330.00	524,838.52	524,842.40	(3.88)
Total Public Works	343,330.00	524,838.52	524,842.40	(3.88)
Debt Service	11,170.00	11,170.00	11,166.12	3.88
Total Expenditures	354,500.00	536,008.52	536,008.52	(0.00)
Net Change in Fund Balances	(204,500.00)	(386,008.52)	(363,544.69)	22,463.83
Fund Balance - Beginning	755,176.34	755,176.34	755,176.34	0.00
FUND BALANCE - ENDING	550,676.34	369,167.82	391,631.65	22,463.83

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SCOTLAND
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Positive (Negative)
Revenues:				
Taxes:				
General Property Taxes	371,294.00	371,294.00	367,413.46	(3,880.54)
General Sales and Use Taxes	150,000.00	150,000.00	169,197.13	19,197.13
Amusement Taxes	100.00	100.00	72.00	(28.00)
Tax Deed Revenue	0.00	0.00	344.18	344.18
Penalties & Interest on Delinquent Taxes	0.00	0.00	1,671.12	1,671.12
Total Taxes	521,394.00	521,394.00	538,697.89	17,303.89
Licenses and Permits	4,460.00	4,460.00	5,625.00	1,165.00
Intergovernmental Revenue:				
State Grants	0.00	1,263.00	1,263.00	0.00
State Shared Revenue:				
Bank Franchise Tax	2,000.00	2,000.00	2,870.42	870.42
Prorate License Fees	2,000.00	2,000.00	2,169.61	169.61
Liquor Tax Reversion	5,000.00	5,000.00	5,480.88	480.88
Motor Vehicle Licenses	10,000.00	10,000.00	10,193.66	193.66
Local Government Highway and Bridge Fund	15,000.00	15,000.00	16,369.27	1,369.27
County Shared Revenue:				
County Road Tax	2,250.00	2,250.00	2,273.76	23.76
Total Intergovernmental Revenue	36,250.00	37,513.00	40,620.60	3,107.60
Charges for Goods and Services:				
Highways and Streets	0.00	0.00	1,800.00	1,800.00
Culture and Recreation	4,000.00	4,000.00	15,955.90	11,955.90
Ambulance	25,000.00	25,000.00	65,280.39	40,280.39
Cemetery	200.00	200.00	1,600.00	1,400.00
Total Charges for Goods & Services	29,200.00	29,200.00	84,636.29	55,436.29
Fines and Forfeits:				
Court Fines and Costs	100.00	100.00	0.00	(100.00)
Other	0.00	0.00	160.00	160.00
Total Fines and Forfeits	100.00	100.00	160.00	60.00
Miscellaneous Revenue:				
Investment Earnings	2,500.00	2,500.00	11,138.90	8,638.90
Rentals	150.00	150.00	265.00	115.00
Contributions and Donations from Private Sources	0.00	0.00	500.35	500.35
Other	4,500.00	4,500.00	6,530.71	2,030.71
Total Miscellaneous Revenue	7,150.00	7,150.00	18,434.96	11,284.96
Total Revenue	598,554.00	599,817.00	688,174.74	88,357.74
Expenditures:				
General Government:				
Legislative	26,575.00	26,575.00	24,154.37	2,420.63
Contingency	10,792.00	10,792.00		
Amount Transferred		(10,792.00)		0.00
Elections	645.00	645.00	0.00	645.00
Financial Administration	74,350.00	74,350.00	67,605.67	6,744.33
Other	28,500.00	28,500.00	26,736.84	1,763.16
Total General Government	140,862.00	130,070.00	118,496.88	11,573.12

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SCOTLAND
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
For the Year Ended December 31, 2019

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget -
				Positive (Negative)
Expenditures (Continued):				
Public Safety:				
Police	92,950.00	92,950.00	92,420.79	529.21
Fire	14,000.00	14,000.00	13,215.50	784.50
Total Public Safety	106,950.00	106,950.00	105,636.29	1,313.71
Public Works:				
Highways and Streets	202,600.00	277,058.52	277,058.52	0.00
Sanitation	5,560.00	5,560.00	4,067.86	1,492.14
Cemeteries	11,662.00	15,950.74	15,950.74	0.00
Total Public Works	219,822.00	298,569.26	297,077.12	1,492.14
Health and Welfare:				
Health	4,350.00	6,752.80	6,752.80	0.00
Ambulance	31,500.00	45,021.43	44,950.22	71.21
Total Health and Welfare	35,850.00	51,774.23	51,703.02	71.21
Culture and Recreation:				
Recreation	30,975.00	30,975.00	27,770.94	3,204.06
Parks	34,920.00	34,920.00	25,623.20	9,296.80
Libraries	23,175.00	26,278.96	26,278.96	0.00
Total Culture and Recreation	89,070.00	92,173.96	79,673.10	12,500.86
Conservation and Development:				
Economic Development & Assistance	6,500.00	6,500.00	4,075.00	2,425.00
Total Conservation and Development	6,500.00	6,500.00	4,075.00	2,425.00
Total Expenditures	599,054.00	686,037.45	656,661.41	29,376.04
Excess of Revenue Over (Under)				
Expenditures	(500.00)	(86,220.45)	31,513.33	117,733.78
Other Financing Sources (Uses):				
Sale of Municipal Property	500.00	500.00	0.00	(500.00)
Total Other Financing Sources (Uses)	500.00	500.00	0.00	(500.00)
Net Change in Fund Balances	0.00	(85,720.45)	31,513.33	117,233.78
Fund Balance - Beginning	1,781,459.59	1,781,459.59	1,781,459.59	0.00
FUND BALANCE - ENDING	1,781,459.59	1,695,739.14	1,812,972.92	117,233.78

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SCOTLAND
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
SECOND PENNY SALES TAX FUND
For the Year Ended December 31, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget -</u>
				<u>Positive (Negative)</u>
Revenues:				
Taxes:				
General Sales and Use Taxes	150,000.00	150,000.00	169,197.07	19,197.07
Total Taxes	150,000.00	150,000.00	169,197.07	19,197.07
Total Revenue	150,000.00	150,000.00	169,197.07	19,197.07
Expenditures:				
Public Works:				
Highways and Streets	138,800.00	138,800.00	33,594.80	105,205.20
Total Public Works	138,800.00	138,800.00	33,594.80	105,205.20
Debt Service	11,200.00	11,200.00	11,166.12	33.88
Total Expenditures	150,000.00	150,000.00	44,760.92	105,239.08
Net Change in Fund Balances	0.00	0.00	124,436.15	124,436.15
Fund Balance - Beginning	630,740.19	630,740.19	630,740.19	0.00
FUND BALANCE - ENDING	630,740.19	630,740.19	755,176.34	124,436.15

NOTES TO THE SUPPLEMENTARY INFORMATION

Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget.

NOTE 1. Budgets and Budgetary Accounting

The Municipality followed these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the Governing Board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpected appropriations lapse at year end unless encumbered by resolution of the Governing Board.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and special revenue fund.

The Municipality did not encumber any amounts at December 31, 2019 and 2020.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue fund.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with the modified cash basis of accounting.

NOTE 2. GAAP/Budgetary Accounting Basis Differences

The Municipality's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenue and expenditures are recognized on a modified cash basis. Utilizing the modified cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements.

SUPPLEMENTARY INFORMATION

SCHEDULE OF THE MUNICIPALITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)

South Dakota Retirement System

Last Six Years*

	2020	2019	2018	2017	2016	2015
Municipality's proportion of the net pension liability/asset	0.0091022%	0.0077296%	0.0067920%	0.0080307%	0.0082702%	0.0073624%
Municipality's proportionate share of net pension liability (asset)	\$ (395)	\$ (819)	\$ (158)	\$ (729)	\$ 27,936	\$ (31,226)
Municipality's covered-employee payroll	\$ 183,458	\$ 153,591	\$ 132,324	\$ 149,253	\$ 143,739	\$ 126,402
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.22%	0.53%	0.12%	0.49%	19.44%	24.70%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.04%	100.09%	100.02%	100.10%	96.89%	104.10%

* The amounts presented were determined as of the measurement date of the collective net pension liability (asset) which is 06/30 of previous fiscal year.

SUPPLEMENTARY INFORMATION

SCHEDULE OF THE MUNICIPALITY CONTRIBUTIONS

South Dakota Retirement System

Last Six Years

	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 9,992	\$ 11,214	\$ 8,124	\$ 10,031	\$ 9,647	\$ 8,222
Contributions in relation to the contractually required contribution	\$ 9,992	\$ 11,214	\$ 8,124	\$ 10,031	\$ 9,647	\$ 8,222
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Municipality's covered-employee payroll	\$ 158,206	\$ 171,232	\$ 129,837	\$ 153,062	\$ 147,071	\$ 128,319
Contributions as a percentage of covered-employee payroll	6.32%	6.55%	6.26%	6.55%	6.56%	6.41%

**Notes to Supplementary Information
for the Year Ended December 31, 2020**

Schedule of the Proportionate Share of the Net Pension Liability (Asset) and
Schedule of Pension Contributions.

Changes from Prior Valuation

The June 30, 2020 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2019 Actuarial Valuation. One change in actuarial assumptions and two plan provision changes are reflected and described below.

The details of the changes since the last valuation are as follows:

Benefit Provision Changes

Legislation enacted in 2020 established a Qualified Benefit Preservation Arrangement (QBPA) under Section 415(m) of the Internal Revenue Code (IRC). The QBPA is effective July 1, 2020 and pays a portion of SDRS benefits that are restricted by IRC Section 415(b). The total benefits paid from SDRS and the QBPA will be limited to the applicable 415(b) annual limit, unreduced for early commencement if Members retire prior to age 62 and actuarially increased for late retirement up to age 70 if Members retire after age 65. The Actuarial Valuation considers benefits payable from both SDRS and the QBPA.

Legislation enacted in 2020 also brought the assets and the liabilities of the South Dakota Department of Labor and Regulation Plan into SDRS effective July 1, 2020. With the exception of the accounting results presented in Section 6 of this report, all exhibits include the assets, liabilities, and member counts of the former Department of Labor and Regulation Plan Members.

Actuarial Assumption Changes

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2019 and exists again this year as of June 30, 2020. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.88% as of June 30, 2019 and is 1.41% as of June 30, 2020.

The changes in actuarial assumptions due to the 1.41% restricted maximum COLA decreased the Actuarial Accrued Liability by \$595 million, or 4.6% of the Actuarial Accrued Liability based on the 1.88% restricted maximum COLA.

Actuarial assumptions are reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2022 Actuarial Valuation and any recommended changes anticipated to be first implemented in the June 30, 2022 Actuarial Valuation.

Actuarial Method Changes

No changes in actuarial methods were made since the prior valuation.

SUPPLEMENTARY INFORMATION

SCHEDULE OF LONG-TERM LIABILITIES
For the Two Years Ended December 31, 2020

A summary of changes in long-term liabilities follows:

	Beginning Balance 01/01/2019	Additions	Deletions	Ending Balance 12/31/2020	Due Within One Year
Primary Government:					
Governmental Activities:					
Bonds Payable:					
Drinking Water Sales Tax Revenue					
Bonds, Series 2003	150,589.55		15,130.65	135,458.90	7,852.89
Total Governmental Activities	150,589.55	0.00	15,130.65	135,458.90	7,852.89
Business-Type Activities:					
Bonds Payable:					
Clean Water #2 Borrower					
Bonds, Series 2012	704,405.70		39,512.43	664,893.27	20,736.69
Total Business-Type Activities	704,405.70	0.00	39,512.43	664,893.27	20,736.69
TOTAL PRIMARY GOVERNMENT	854,995.25	0.00	54,643.08	800,352.17	28,589.58

Debt payable at December 31, 2020 is comprised of the following:

Drinking Water No. 1 Sales Tax Revenue Bonds, Series 2003,
 2.50% Interest Rate, Maturing April 15, 2035,
 Payable from the Second Penny Sales Tax Fund. \$ 135,458.90

Clean Water No. 2 Borrower Bond, Series 2012,
 3.25% Interest Rate, Maturing January 15, 2043
 Payable from the Sewer Fund. \$ 664,893.27

SUPPLEMENTARY INFORMATION

The annual requirements to amortize all debt outstanding as of December 31, 2020, are as follows:

Annual Requirements to Maturity for Long-Term Debt
December 31, 2020

Year Ending December 31,	Drinking Water No. 1 Sales Tax Revenue Bonds - Series 2003		Clean Water No. 2 Sales Tax Revenue Bonds - Series 2012	
	Principal	Interest	Principal	Interest
2021	7,852.89	3,313.23	20,736.39	21,358.01
2022	8,051.06	3,115.06	21,418.58	20,675.82
2023	8,254.22	2,911.90	22,123.21	19,971.19
2024	8,462.53	2,703.59	22,851.03	19,243.37
2025	8,676.08	2,490.04	23,602.79	18,491.61
2026-2030	46,777.18	9,053.42	130,184.96	80,287.04
2031-2035	47,384.94	2,862.60	153,055.36	57,416.62
2036-2040			179,943.52	30,528.48
2041-2045			90,977.43	3,734.97
Totals	<u>135,458.90</u>	<u>26,449.84</u>	<u>664,893.27</u>	<u>271,707.11</u>

Year Ending December 31,	Totals	
	Principal	Interest
2021	28,589.28	24,671.24
2022	29,469.64	23,790.88
2023	30,377.43	22,883.09
2024	31,313.56	21,946.96
2025	32,278.87	20,981.65
2026-2030	176,962.14	89,340.46
2031-2035	200,440.30	60,279.22
2036-2040	179,943.52	30,528.48
2041-2045	90,977.43	3,734.97
Totals	<u>800,352.17</u>	<u>298,156.95</u>